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In the Supreme Court of the United States

October Term, 1985

LUBRIZOL ENTERPRISES, INC.,
Petitioner,

v.

RICHMOND METAL FINISHERS, INC.,
Respondent.
IN RE: RICHMOND METAL FINISHERS, INC.,
Debtor.

AMICUS BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

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Interest of Amicus Curiae

Licensing Executives Society ("LES") is a nonprofit professional and educational organization comprised of members actively involved in the transfer of technology and intellectual property rights (patents, trademarks, copyrights and know-how, including trade secrets). It is a business-oriented society of over 2,000 members from industry, law firms, universities, research institutes and various Government organizations. LES has sister societies in many other countries throughout the world. It has been estimated that LES members are involved in over 85% of worldwide technology transfer.

The agreement between Lubrizol and Richmond Metal Finishers, Inc. at issue in this case is an arrangement involving the transfer of unpatented, confidential technology. One

of the principal methods by which technology is transferred is in the form of licenses of unpatented technology. Empirical research suggests that the value of such trade secret or know-how licensing is greater even than that of patent licensing. *See* Bleeke & Rahl, The Value of Territorial and Field-of-Use Restrictions in the International Licensing of Unpatented Know-how: An Empirical Study, 1 Nw. J. Int'l L. & Bus. 450, 455–58 (1979). Indeed, the Report of the President's Commission on Industrial Competitiveness cited the development and commercialization of technology as keystones to our nation's ability to meet its competitive challenges. *See* The Report of the President's Commission on Industrial Competitiveness, "Global Competition, The New Reality," pp. 1–2, 45–46, 51–52 (1985).

Accordingly, the issue presented in this case is a matter of great importance to LES and industry generally. Briefly stated, the question is whether Section 365 of the Bankruptcy Code authorizes the court to rescind a license contract transferring rights in confidential, unpatented technology and order restitution of benefits that were conferred upon the licensee prior to the bankruptcy filing. LES wishes to inform the Court that it should grant certiorari in this case because the decision below conflicts with the law and strong policy favoring preservation of previously transferred, unpatented technology rights, even in the face of filing for bankruptcy by the licensor.

ARGUMENT

The decision below conflicts with recent Supreme Court decisions that have emphasized the importance and integrity of technology licenses, *see Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974), and is also contrary to the decisions of other federal

courts of appeal construing the Bankruptcy Code which do not premit rescission of pre-petition performance by the debtor, *see generally* Petitioner's Brief in Support of Writ of Certiorari.

In *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974), this Court looked closely at the policy underlying the protection of confidential unpatented technology and contracts respecting such technology. This Court held that the patent law did not preempt state trade secret law in light of that policy.

According to the Court:

> "The maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law. 'The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world.'" *Id.* at 481-82.

The Court recognized that:

> "Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of valuable, if not quite patentable, invention." *Id.* at 485.

The necessity of licensing as a means for the desired "exploitation" was stressed in the *Kewanee* decision. This Court recognized the importance "of licensing others to use [the] invention and making the most efficient use of existing manufacturing and marketing structures within the industry, . . ." *Id.* at 486. The Court explained that denial of trade secret protection and related contracts would "tend . . . to limit . . . utilization of the invention, thereby depriving the public of the maximum benefit of its use, . . ." *Id.* at 486.

In sum:

> "Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it." *Id.* at 493.

Similarly, in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court ruled in favor of preserving the sanctity of the unpatented technology contract. The Court relied upon its decision in *Kewanee* and held that a license of unpatented technology requiring royalties so long as the technology was used was enforceable, notwithstanding that the licensed technology had entered the public domain and a patent application on the technology had been rejected. Again, this Court stressed the importance of enforcing the licenses of unpatented technology to

> "encourage invention . . . [and] prompt the independent innovator to proceed with the discovery and exploitation of his invention." *Id.* at 266.

These recent Supreme Court precedents recognize the critical function not only of the inventor (*i.e.*, the licensor), but also of the investor in the technology (*i.e.*, the licensee). As the Court of Appeals stated with respect to analogous patented technology in *SCM Corp* v. *Xerox Corp.*, 645 F.2d 1195, 1206 n.9 (2d Cir. 1981), *cert. denied*, 455 U.S. 1015 (1982):

> "Investors . . . play a key role, if not an indispensable one today, in both the inventive process and commercialization of inventions. And it is fair to say, we think, that the contribution of the investor in both the funding of research that leads to inventions and the promotion that necessarily must follow to achieve successful commercialization is of comparable value.

See also Picard v. *United Aircraft Corp.*, 128 F.2d 632, 641 (2d Cir.), *cert. denied*, 317 U.S. 651, 63 S.Ct. 46, 87 L.Ed. 524 (1942) (Frank, J. concurring).

The reason for the public policy in favor of protecting the licensee is plain. The process of innovation is a long, expensive and risky one. The inventive concept is the first of an expensive series of steps continuing through research, applied research, development, manufacturing and marketing. The licensee, in many cases, performs and finances the steps following generation of the basic idea. The expense is often modest at the invention stage, but it increases as a product is developed, tooled for manufacturing and, finally, marketed. The success rate for new products, let alone inventive concepts, is small. As the President's Commission on Industrial Competitiveness concluded: "Research and development are always risky. If the developers of a new technology cannot be assured of gaining adequate financial benefits from its commercialization, they have few incentives to make the huge investments required." The Report of the President's Commission on Industrial Competitiveness, "Global Competition, The New Reality," p. 21 (1985). For these reasons, the law seeks to protect the license in order to foster the functions performed by the licensee in the innovation process.

The Fourth Circuit's decision will jeopardize the innovation process, contrary to the prevailing public policy. Lubrizol, before Richmond's bankruptcy filing, received a transfer of unpatented technology with perpetual rights, subject to certain payment obligations. If a pre-bankruptcy filing transfer of license rights can be rescinded by the debtor-in-possession and the debtor can obtain restitution of benefits already conferred, it would jeopardize the investment in, and plans for, development and exploitation by the licensee. Without the licensee's development efforts, in many instances an idea will not be exploited at all; in others, utilization of the idea will not be maximized. If the licensor's bankruptcy can abruptly terminate the licensee's rights and nullify his investment and plans, the licensee — and the public — will suffer the sudden loss of the benefits of the innovation. By the same token, such

a disruptive result must make licensees wary of dealing with financially weak licensors. While the licensee is left with a claim for damages against the insolvent debtor-in-possession, society will not be compensated for the lost or sidetracked innovation. Progress, competition and economic benefit to the public will be the losers.

CONCLUSION

For these reasons, as well as those set forth in the Petition for Writ of Certiorari of Lubrizol, LES requests that the Court grant the Petition for Writ of Certiorari.

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Respectfully submitted,

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